

Executive Report

Wards affected: All

Report of Chief Financial Officer

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General Fund Draft Budget 2022-23 and Medium Term Plan 2022-23 to 2025-26

Executive Summary

This report outlines the current position on the 2022-23 draft general fund budget and the business planning assumptions for 2022-23 to 2025-26. The report asks the Executive to note the position and re-confirm the strategy for savings and efficiencies in order to set a balanced budget in the medium term.

The Joint Executive Advisory Board (JEAB) will consider the outline budget at their meetings on 11 November.

Executive agreed the Savings Strategy for 2022-23 to 2025-26 at its meeting on 22nd June 2021. The strategy set out that the assumptions used in calculating the budget gap and therefore the quantity of savings required over the medium term. The core assumptions underpinning the draft budget have been reviewed and the revised assumptions are set out in the table below:

Summary table

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|-------------------------------|----------------|----------------|----------------|----------------|
| | % | % | % | % |
| General inflation | 2.0 | 2.0 | 2.0 | 2.0 |
| Pay award | 3.1 | 3.0 | 3.0 | 2.0 |
| Pay Increments | 1.0 | 1.0 | 1.0 | 1.0 |
| Increases in fees and charges | 3.0 | 3.0 | 3.0 | 3.0 |
| Council Tax | 1.94 | 1.94 | 1.94 | 1.94 |
| Housing rents | 4.1 | 3.0 | 3.0 | 3.0 |
| Council Tax Base | 2.0 | 1.4 | 1.3 | 1.1 |
| Vacancy Factor | 2% | 2% | 2% | 2% |

| | | | | |
|--|-----|-----------------------|-----------------------|-----------------------|
| Government Settlement Funding Assessment (SFA) | nil | £503k Reduction (17%) | £650k Reduction (21%) | £663k Reduction (21%) |
|--|-----|-----------------------|-----------------------|-----------------------|

The Council will make the final decision on the estimates for 2022-23 at its meeting on 9th February 2022; agreement of an allowance at this stage (for example the assumed pay award) does not mean that it cannot be changed later in the process.

It is usual in terms of building the budget to use the current year as a base for moving forward and then adjust for known changes from growth and savings, this is known as an incremental budget. The current financial year (2021-22) will also need to be considered as this is currently projected to generate a net overspend of around £2.9m (this will be confirmed as the year progresses) due to a slower than anticipated recovery from the Covid-19 pandemic for fees and charges (particularly parking) and pressures on the planning service. A separate report on this agenda reports the financial monitoring position for period 6 and proposes an action plan to try to mitigate the overspend if possible. Subject to the approval of the mitigation measures, it is likely that reserves will need to be utilised to address the overspend position. Further utilisation of reserves to balance the Council's budget is not recommended; it will diminish our ability to withstand economic shocks and will increase the need to replenish reserves in future years of the medium term plan.

The report explains that we have included our best assumptions about the level of government funding, but that we will not know the amount of our retained business rates for certain until central government releases the provisional local government finance settlement which the Department for Levelling Up, Housing and Communities (DLUHC) has provisionally indicated will be in December 2021. We have assumed a 1.94% increase in Council Tax which is the maximum increase the Council can levy without needing to set a referendum under current rules however it is possible this may change with the settlement announcement.

The draft Council Tax base is 58,335.91, which is 2.06% higher than 2021-22. This has increased the resources available by approximately £213,000.

The current position on the 2022-23 draft budget currently shows a shortfall between the likely resources and the proposed net expenditure of £1.2million. In addition, the draft projection for 2022-23 to 2025-26 shows a medium term budget shortfall (gap) of £5.5 million based on current assumptions. However sensitivity analysis shows that the budget gap over the medium term period could be between £3.7million and £11.4million.

The major reasons for movements between 2021-22 and 2022-23 are set out in the report with further information at **Appendix 2**. Due to the shortfall between the Council's likely income and its current anticipated expenditure (ie, the budget gap) we have not invited any new growth bids for increases in service provision for 2022-23. This is consistent with the fact the Council has recently undertaken a programme of transformation under 'Future Guildford' which has reduced expenditure and is working through the savings strategy to try to achieve a balanced budget in the medium term. However, officers have included some new growth assumptions relating to the pay claim submitted by Unison, the impact of the national insurance increase and the extension of the leisure management contract. Some capital bids may have revenue

implications attached to them. These will be considered as part of the capital and investment strategy report in January 2022.

Because it is still early in the budget process, the report also sets out the areas of uncertainty that may influence the final position.

Recommendation to Executive:

The Executive is recommended to:

1. Approve the budget assumptions used in the preparation of the 2022-23 draft budget and three year forward projections
2. Note the current position on the draft budget for 2022-23 and the budget shortfall anticipated over the 3 years to 2024-25
3. Approve the savings identified as part of the savings strategy for 2022-23 through to 2025-26 (Section 11,12,13 & Appendix 3) which have been included in the draft budget
4. Approve the in-year savings of £46,750 arising from the review of classical music, book festival, voluntary and CAB grants for 2021-22 which were not included as part of the 2021-22 budget.
5. Approve the additional growth items identified in section 11 and Appendix 3 which have been included in the draft budget
6. Agree to the proposal to Council to make the contributions to/from the Council's various earmarked reserves for specific purposes as set out in section 9 of the report as part of the budget report in February 2021

Reason(s) for Recommendation:

To assist the Executive in the preparation of the General Fund estimates for 2022-23.

1. Purpose of report

- 1.1 This report outlines the current position on the 2022-23 draft budget and asks the Executive to note the position.
- 1.2 Because it is still early in the budget process, the report also sets out the areas of uncertainty that will influence the final position and a savings strategy to be implemented over the period 2022-23 to 2025-26 in order to achieve a balanced budget over the medium term.

2. Strategic Priorities

- 2.1 The budget underpins the Council's strategic framework and delivery of the Corporate Plan.

3. Background

- 3.1 This report will cover the following areas:
 - Budget assumptions (Section 4)
 - Revenue Support Grant and Business Rate Retention Scheme (Section 5)
 - Council Tax, tax base and collection fund (Section 6)
 - New Homes Bonus (Section 7)
 - Capital expenditure and minimum revenue provision (Section 8)

- Use of reserves and interest earnings (Section 9)
- Forecasted outturn position for 2022-23 (Section 10)
- Draft budget for 2022-23 (Section 11)
- Projections for the financial years 2023-24 through to 2025-26 (Section 12)
- An update on the savings strategy approved in June to achieve a balanced budget in the medium term (Section 13)

4. Budget Assumptions

- 4.1 In order to prepare the outline budget for 2022-23 officers need to know the parameters within which they need to work.
- 4.2 Setting parameters for the whole plan period is beneficial in the calculation of projections over the medium term. The working assumptions used have therefore been used for the whole plan period up to 2025-26.
- 4.3 The Council will make the final decision on the estimates for 2022-23 at its meeting on 9 February 2022; agreement of an allowance at this stage (for example the assumed pay award) does not mean that this cannot be changed later in the process.

Inflation and Pay assumptions

- 4.4 There are generally three accepted inflation measures:
- 4.4.1 Retail Prices Index (RPI) - A long standing measure of UK inflation that has historically been used for a wide range of purposes.
- 4.4.2 Retail Prices Index excluding mortgage interest (RPIx) - RPIx is the equivalent to RPI excluding the effects of mortgage interest payments.
- 4.4.3 Consumer Prices Index (CPI) - A measure of consumer price inflation and is currently the measured targeted by the Bank of England.
- 4.4.4 CPIH – the consumer prices index including owner occupiers housing costs
- 4.5 For planning purposes, it is proposed that a 2.0% central inflation allowance for 2022-23 is set and thereafter a 2% allowance from 2022-23 to 2024-25. This amounts to around £424,000 for the General Fund. Whilst the September 2021 CPI was 3.1%, the Bank of England's view is that increased inflation is a temporary situation that has occurred on the back of the economy re-opening post covid and it expects inflation to fall back to 2% in the medium-term.
- 4.6 The impact of a 1% change in this assumption would be approximately £333,000 for the General Fund.
- 4.7 In 2021-22, no pay award was awarded on the basis that Average Weekly Earnings growth for the first half of 2020 was negative due to the impact of COVID 19 across most sectors and the cost pressures of the pandemic on the Council.
- 4.8 Average Weekly Earnings growth for the public sector (excluding financial services) was around 2.8% in August 2021 and was around 7.2% across the whole economy. The Council normally considers both the Average Weekly

Earnings and CPI inflation in determining the pay inflation for the budget. In the report to Executive in June 2021, officers recommended for planning purposes that an assumption of 2.0% pay allowance is applied for 2022-23 and across the future years of the medium term plan. The assumption is consistent with the medium term CPI projection. The cost to the General Fund in 2022-23 of pay inflation at a 2% rate is £530,000. However, the anticipated cost of contractual salary increments adds a further additional pressure to the budget of around £300,000. The total cost of the assumed pay inflation to the council is therefore £830,000.

- 4.9 The council has received a pay claim from Unison requesting a 10% increase in pay over a 3 year period. Unison claim that pay restraint in the public sector over the last decade has consistently been behind average pay settlements in the private sector. They argue that this is leading to recruitment and retention issues and an increase in the cost of living for council employees. The agreement of any pay settlement with the union is a matter for the Head of Paid Service, however whilst the matter is still under discussion and a final decision has not been made, a growth item of £274,000 for 2022-23, 2023-24 and 2024-25 has been included within the draft budget and the medium term financial plan to accommodate the potential additional cost of providing a pay settlement of 3% in each year.
- 4.10 The impact of a 1% change in pay inflation assumption would be approximately £274,000 for the General Fund.
- 4.11 When setting the budget, officers make an assumption about the natural turnover of staff during the year. This is known as the 'vacancy factor'. The use of a vacancy factor means that the Council does not budget for all staff posts to be filled 100% throughout the year and thus reduces the staffing budget requirement. It is proposed that a 2% vacancy factor is used over the period 2022-23 to 2025-26.
- 4.12 In autumn 2021, the government announced an increase of 1.25% on national insurance, although government has stated that public sector bodies will be compensated for the cost of the rise through the finance settlement, a growth of £373,000 has been included within the budget to account for the cost whilst we wait for the LGFS to be announced.

Sales, Fees and Charges Income

- 4.13 Recent Council policy has been to increase income by the RPI measure of inflation, thereby increasing the proportion of services financed by the users of the service rather than through the Council Tax or housing rents. However, in practice, reviews of the markets in which services operate has meant the target has not been consistently achieved. It is proposed that a target of 3.0% is used for increases in fees and charges for 2022-23 and 3% for each year of the remaining planning horizon, applied where there is capacity in the market. This is broadly in line with the CPI in September 2021 rather than RPI which in September 2021 was 4.9%. A 3% rise in fees and charges should increase the council's income by around £672,000. These assumptions represent what we expect to increase fees and charges by, however, there is a possibility that the

COVID 19 pandemic will present a more permanent correction to the Council's income due to reduction in activity levels and usage of services. In preparing the draft budget, Officers have assumed that income will return to pre-covid levels by 2022-23. This assumption is highly uncertain, particularly as evidence to date is that parking income in particular is remaining sub-dued. The optimistic and pessimistic scenarios have been modelled in section 13.

- 4.14 The fees and charges schedule will be presented to Council for approval in February 2022.
- 4.15 In summary, the assumptions used in the 2022-23 draft budget are set out in the table below.

| | 2022-23 % | 2023-24 % | 2024-25 % | 2025-26 % |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| General inflation | 2.0 | 2.0 | 2.0 | 2.0 |
| Pay award | 3.1 | 3.0 | 3.0 | 2.0 |
| Pay Increments | 1.0 | 1.0 | 1.0 | 1.0 |
| Increases in fees and charges | 3.0 | 3.0 | 3.0 | 3.0 |

5. Business Rates Income under the Business Rates Retention Scheme (BRRS)

- 5.1 Since 2018-19 the Council has not received a Revenue Support Grant (RSG) from Central Government. Funding from central government to the Council now solely consists of the amount of business rates the Council can retain under the Business Rates Retention Scheme. The government sets out what this is as part of the local government finance settlement (LGFS) each year. The Council's Settlement Funding Assessment (SFA) is the amount of business rates it can retain.
- 5.2 Within the period covered by the business planning horizon, there will be significant change to the system of local government finance. It is anticipated that by 2023, government will re-assess the baseline need to spend of each local authority through the "fair funding review", it is uncertain whether it will then establish a financing system based on 75% business rates retention or whether the proposed business rate reforms will be made as part of the 'Levelling Up' proposals due to be announced in the Winter of 2021.
- 5.3 As part of the fair funding review (or the levelling up proposals), further powers and responsibilities are likely to be passed to local government and the cost drivers and demand for local government services will be re-assessed. It was originally anticipated that the new funding system would come into effect from April 2020, however, the implementation date was first pushed back to April 2021, and has now been delayed by 2 years by central government due to the COVID19 pandemic.
- 5.4 The settlement for 2022-23 is likely to be very similar to that of 2020-21 and 2021-22 with more significant changes expected to be proposed for 2023-24. We anticipate that the 2022-23 local government finance settlement (LGFS) will be a "roll-forward" settlement and therefore the SFA will increase by inflation of 2%. Based on previous consultations around the fair funding review, officers

anticipate that there will be a 17% reduction in SFA for 2023-24 increasing to 22% by 2025-26. The Department of Levelling Up, Housing and Communities (DLUHC) has provisionally indicated that the draft Local Government Finance Settlement (LGFS) will be announced in December 2021, therefore a further update on government funding will be provided to Executive in January 2022 as part of the final budget report.

6. Council Tax, tax base and collection fund

- 6.1 The outline budget assumes that council tax will increase by 1.94% (approximately £3.53) which officers anticipate will be the maximum increase the Council will be allowed without having to hold a referendum. This means that the band D tax will go up from £181.82 to £185.35. The increase will generate approximately £201,000 based on the 2021-22 tax base.
- 6.2 Officers have estimated the draft council tax base for 2022-23 at 58,335. This is 2% higher than the 2021-22 figure. The final Council Tax Base will be confirmed by the end of November when the Director of Resources sets the Council tax base. The assumed increase will increase the available resources by approximately £214,000.
- 6.3 Any surplus or deficit on the Collection Fund in the current financial year (2021-22) would normally feed into the 2022-23 budget. However, due to the impact of COVID 19 on the collection fund in 2020-21, the government has allowed local authorities to spread 'exceptional deficits' over a 3 year period. The collection fund council tax deficit of £43,020 presented in the draft budget relates to the exceptional deficit incurred in 2020-21. Officers are currently assessing what the potential deficit for 2021-22 on the collection fund will be and will update the amount in time for Executive in January 2022. It is currently uncertain whether the deficit for 2021-22 can also be spread over 3 years. If there is a substantial deficit on the collection fund for council tax, in order to balance the budget and prevent further service reductions, Officers propose that the Council uses one of its earmarked reserves to offset the impact of the council tax collection fund deficit in 2022-23 and then seeks to rebuild that reserve in 2023-24. Further details will be presented in the final budget report in January 2021.
- 6.4 At present, it also seems likely that there will be a deficit on the business rates element of the Collection Fund, also due to the COVID 19 pandemic and an increase in the number of empty properties. Officers propose that any business rates deficit is financed from the Business Rates Equalisation Reserve, which has been the Council's policy in recent years.

7. New Homes Bonus (NHB)

- 7.1 The NHB was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. In December 2016 the Government announced reforms to the NHB as follows;
- (i) Reduction in the number of years payments are made (legacy payments) from 6 to 5 in 2017-18, to 4 years for 2018-19 to 2019-20, and to 1 year in 2020-21
 - (ii) Introduction of a national baseline for housing growth of 0.4% of council tax base from 2017-18, below which new homes bonus is not paid

- 7.2 In the technical consultation published on 3rd October 2019 the government set out its intention to review the NHB for future years. Further consultation will happen on any proposals prior to implementation which has not yet been forthcoming, however, it is widely anticipated that the NHB scheme will cease from April 2023 onwards. The 2022-23 outline budget assumes a grant of £113,000 will be made. This grant will be transferred to the NHB reserve and used to fund specific one off projects.

8. Capital expenditure and minimum revenue provision

- 8.1 The Council has a single capital programme for the General Fund that we finance from the Capital Schemes reserve, capital receipts and revenue contributions towards specific schemes. Unless we generate significant capital receipts, the Council needs to borrow from either its own resources (earmarked for other uses) or from the market; at the current time borrowing is internal as it is more financially advantageous.
- 8.2 Because the capital programme shows an underlying need to borrow, represented at the year-end by the capital-financing requirement (CFR), there is a requirement to make a debt charge to the revenue account called the minimum revenue provision (MRP). This charge is based on the value and life of the assets funded by borrowing (internal or external). The minimum revenue provision for 2021-22 was estimated to be £1.535million, which was based on an estimated General Fund CFR at 31 March 2021 of £122.3 million. It is currently estimated that the CFR at 31 March 2022 will be £191.9 million and the MRP for 2022-23 will be £2.46 million. This figure is included in the draft budget. Officers are currently preparing an updated capital programme for Councillors to consider early in 2022. The level of capital programme that Councillors wish to support will determine the level of capital receipts used, interest earnings and MRP for 2022-23.

9. Use of Reserves and interest earnings

- 9.1 An important element of the Council's budget is the income it receives from investment of the cash held in reserves. The balances held at the end of 2020-21 and the projected balances at the end of 2021-22 financial years are shown below:

| Forecast Level of Reserves 31st March 2022 | Balance 31.3.21, £000 | Net Movement 2021-22, £000 | Expected Balance 31.3.22, £000 | Useable amount, £000 |
|---|------------------------------|-----------------------------------|---------------------------------------|-----------------------------|
| Business Rates equalisation | 24,040 | -17,641 | 6,399 | 2,899 |
| Car Parks Maintenance | 3,566 | -2,295 | 1,271 | 0 |
| Interest Rate Movements | 1,197 | 0 | 1,197 | 0 |
| New Homes Bonus | 747 | -565 | 182 | 182 |
| Insurance | 976 | 0 | 976 | 0 |

| | | | | |
|------------------------------------|---------------|----------------|---------------|--------------|
| IT Renewals | 544 | -288 | 256 | 0 |
| Invest to Save | 2,420 | -2,328 | 92 | 92 |
| Spectrum | 2,012 | -616 | 1,396 | 0 |
| COVID grants | 2,385 | 0 | 2,385 | 0 |
| SPA Reserves | 10,213 | 1,314 | 11,527 | 0 |
| Other reserves | 7,623 | 164 | 7,788 | 709 |
| TOTAL Earmarked Reserves | 55,722 | -22,254 | 33,468 | 3,882 |
| General Fund Reserves | 3,748 | -2,885 | 863 | 863 |
| TOTAL GENERAL FUND RESERVES | 59,470 | -25,139 | 34,331 | 4,745 |

- 9.2 As part of the budget report to Council in February 2021, the Chief Finance Officer advised that based on a risk analysis of the council's budget the Council should seek to hold a minimum level of reserves of £12 million. The Council is forecast to have £34.3 million in total reserves for the general fund at the end of this financial year, however, £11.5 million of those reserves relate to SPA sites where the Council needs to hold the reserve 'in perpetuity' to fund site maintenance and £18 million of reserves are held to offset future expenditure which we are committed to under various contracts, legislation or grant determinations meaning that those reserves would need to be replaced to meet the commitments if they were used.
- 9.3 If the current overspend for 2021-22 cannot be fully or partially mitigated then the council will be required to fund the overspend from its general fund reserves. The table above outlines that if the overspend is funded from reserves this will leave the council with a general reserve of just £863,000 and an overall balance of useable reserves of around £4.7 million.
- 9.4 Use of the Council's unallocated reserves will present a risk to the financial sustainability of the Council as the reserve levels will fall to a level that will be considered too low for the operating risks faced by the Council and will reduce the ability of the council to withstand economic shocks in the future. As a result if, the overspend for 2021-22 cannot be mitigated then the Council will need to plan to rebuild reserves over the medium term period.
- 9.5 In the 2021-22 budget, we anticipated a net interest receipt of £682,726. The estimate for net interest in the draft budget for 2022-23 is interest payable of £497,515. Interest payable to the Housing Revenue Account (HRA) is estimated at £84,340 reflecting the level of balances and investment returns consistent with the application of a risk-free rate of return.
- Proposed Use of Key Earmarked Reserves*
- 9.6 The Council used a substantial amount of reserves in 2020-21 to fund the cost of the Future Guildford Transformation programme and the additional costs of the COVID 19 Pandemic on the Council. Officers are anticipating a further use of reserves in 2021-22 to offset the on-going impact of the pandemic in the current financial year. This means that the ability to use reserves to fund unplanned revenue expenditure in the future will be limited and should be avoided.

New Homes Bonus Reserve

- 9.7 The balance on the NHB reserve at the 31st March 2022 is anticipated to be £0.2million. The draft budget assumes a transfer of the £113,000 NHB grant to the reserve in 2022-23. Officers propose to use £80,000 of this reserve to fund the Council's contribution to the rebuild of Ripley Village Hall as previously agreed by the Executive in January 2020. It is anticipated there will be an unallocated amount of around £200,000 left in the reserve which Councillors could consider using to fund a one-off project. Officers are currently looking at which projects require funding and will include any proposal in the final budget report.

Invest to Save Reserve

- 9.8 The invest to save reserve exists to pump prime the upfront costs of service transformation and efficiency projects, including staff redundancy costs. The Council partially funded the implementation costs associated with the Future Guildford transformation programme from this reserve. Following the funding of remaining Future Guildford costs incurred during 2021-22 it is anticipated that there will be a balance of £92,000 on this reserve at 31st March 2022. Over recent years, the Council has made a contribution to the Invest to Save reserve of £250,000 per annum which allowed us to build the reserve in order to fund the transformation programme. Officers recommend making an annual contribution of £250,000 in 2022-23 and each of the years in the medium term plan to 2025-26. Rebuilding the reserve will enable the Council to support further transformation of Council services.

The Car Parks Maintenance Reserve

- 9.9 The balance on the car parks maintenance reserve as at 31st March 2022 is anticipated to be £1.3 million due to financing repairs to council car parks included in the Council's capital programme. This reserve was established to fund repairs, maintenance and improvement of car parks. Building up and using the reserve mitigates the need to fund such capital expenditure from borrowing. However £860,000 of the reserve was used in 2020-21 to fund the impact of the covid pandemic and in particular the loss of parking income. In previous years, the Council budgeted to make an annual contribution of £500,000 to the reserve from parking income and then expenditure on capital projects and repairs and maintenance of car parks is taken from the reserve. Officers propose that the Council budgets to rebuild this reserve by £355,000 in 2022-23 and then gradually increase the annual budget contribution to the reserve back up to £500,000 per annum over the three year period up to 2025-26. This will rebuild the reserve to a level that can be used for future repairs and maintenance of the car parks.

IT Renewals

- 9.10 The anticipated balance on the ICT renewals fund as at 31st March 2022 is £0.256million. The reserve has been used in the last three years to fund the investment in technology required under the ICT refresh and Future Guildford Programmes to aid new ways of working and improve value for money and efficiency in the delivery of Council services. Officers recommend that the

Council budgets to make a contribution of around £543,000 to the ICT renewals reserve in 2022-23 to enable the completion of phase 2 of the ICT refresh Programme which involves the migration of remaining software applications to cloud based solutions and enables the decommissioning of old on-premise applications. The annual contribution to the fund can then be reduced to around £290,000 to fund on-going annual ICT renewals such as the lifecycle replacement of laptops, mobile equipment and ICT application upgrades.

Business rates equalisation reserve

- 9.11 The balance on the business rate equalisation fund is anticipated to be £6.4million at the 31st March 2022. A contribution of £1.98million to the reserve is required to be made in 2022-23 as the final contribution to repay the three year pre-payment of the superannuation backfunding to the pension fund (as determined by the 2019 triennial) which was paid from the reserve in 2019-20. It is the Council's policy that the reserve is used to even out fluctuations in the business rate retention scheme including the business rates element of the surplus or deficit on the Collection fund. As a result, officers recommend making a contribution of £8.4million from the reserve to fund the projected collection fund deficit for 2021-22. This will mean that the balance on the reserve is likely to be nil by 31st March 2023.

Other Reserves

- 9.12 Officers propose retaining annual contributions to the Election costs reserve, spectrum reserve and 'other' reserves as set out in Appendix 1.

10. Forecasted position for 2020-21

- 10.1 The financial monitoring report for the first six months of 2021-22 will be reported to the Corporate Governance and Standards Committee on 18 November 2021 and the Executive as part of this agenda. The projected net expenditure on the General Fund for the current financial year is estimated to be £2.9 million more than the original estimate. The main factor contributing to the forecasted position in 2021-22 is the loss of income from the covid -19 pandemic and a slower than anticipated recovery across the majority of services, but in particular parking and leisure services. In addition, additional pressure and costs are being incurred on the planning service due to a significant increase in planning applications. The financial monitoring report will set out an action plan to try to mitigate the overspend as far as possible,

11. 2022-23 draft budget – current position

- 11.1 Although it is still early in the estimates process (the Council does not set its 2022-23 budget and Council Tax until 9 February 2022), the current outline budget shows a shortfall between the likely resources and the proposed net expenditure of £1.6million. This shortfall needs to be funded by progressing the savings strategy agreed by Executive in June 2021.
- 11.2 In order to arrive at the final budget, service managers prepare an outline budget based on existing levels of service, which has then been amended for existing commitments and agreed savings arising from the savings strategy. For 2022-23 Officers have not submitted any new service growth proposals due to the need to

reduce expenditure and resolve the budget shortfall. However, there are a number of growth items included in the draft budget arising from statutory or contractual obligations as follows:

- Salary increments & Unison pay claim (as outlined in section 4)
- National insurance increase (as outlined in section 4)
- Increase in ICT software licence fees arising from technology introduced as part of Future Guildford (the growth has been reviewed and is £120,000 lower than that anticipated as part of the future Guildford business case approved by Council in February 2019)
- Loss of income from the Leisure Management contract arising from the recent 2 year contract extension

11.3 On-going savings and additional income from the Future Guildford transformation programme, particularly relating to the procurement strategy and the asset management strategy have been included in the draft budget as previously outlined in the Future Guildford business case, the procurement strategy and the asset management strategy approved by Executive.

11.4 Savings from the Council's savings strategy approved by Executive in June 2021 have been included in the draft budget where the saving has been quantified and discussed with the Executive Advisory Boards. A summary of progress against the savings strategy is outlined in **Appendix 3** along with the EAB's comments on the savings project mandates. The savings which have been included in the draft budget are:-

- £300,000 from the service review of park and ride services
- £90,000 from the Guildford-Waverley collaboration appointment of the Joint Chief Executive
- £65,000 for the review of public conveniences
- £70,000 reduction in cultural service grants (classical music grant and book festival grant)
- £25,000 reduction in CAB grant
- £50,000 saving for removing the voluntary grants scheme
- £143,000 additional income from raising fees and charges above 3% increase across waste, parks and streetscene and bereavement services

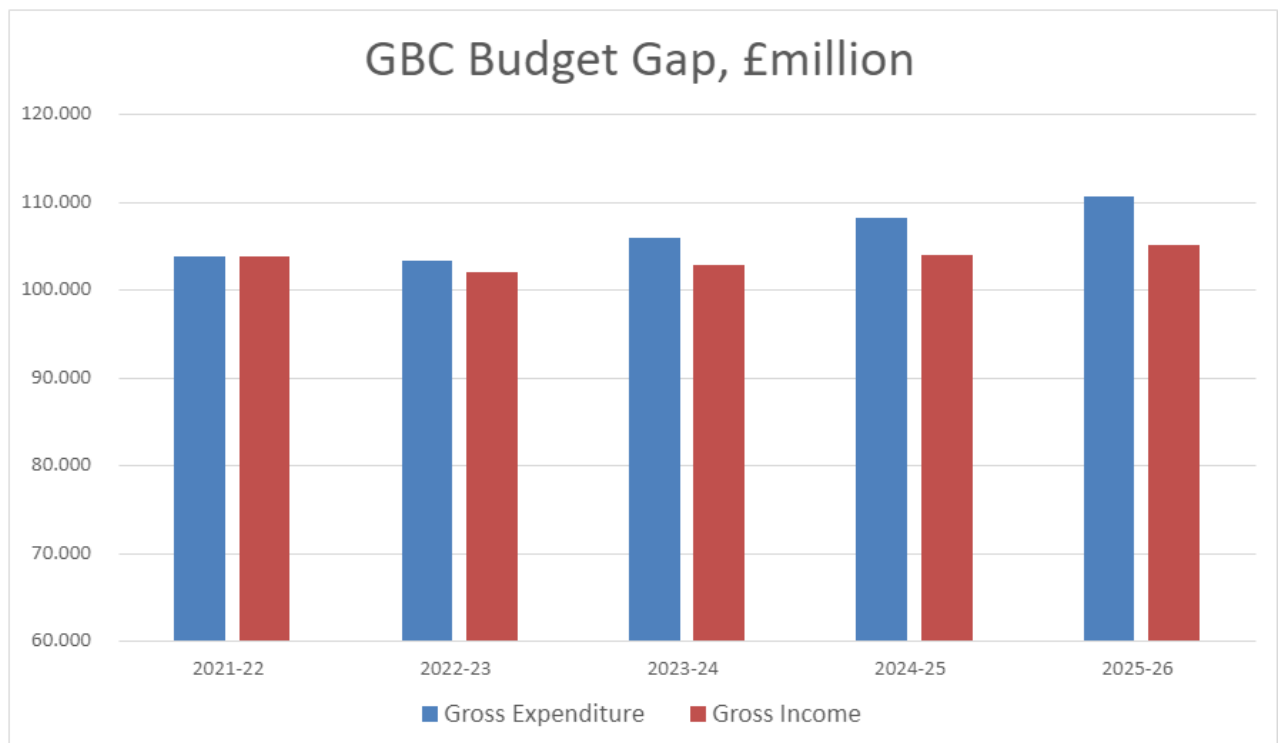
11.5 A summary of budget movements for 2022-23 and the medium term plan is outlined in the table below with further detail in **Appendix 2**. The movements for 2021-22 relate to the overspend reported as part of the period 6 monitoring.

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | TOTAL 2022-23 to 2025- 26 |
|--------------------------|---------|---------|---------|---------|---------|------------------------------------|
| | £m | £m | £m | £m | £m | £m |
| Brought forward budget | 10.4 | 10.4 | 10.1 | 14.0 | 15.3 | 49.8 |
| Inflation | | 0.3 | 0.3 | 0.2 | 0.2 | |
| Pressures (Growth items) | 5.0 | (1.1) | 2.6 | 0.9 | 0.0 | 2.5 |

| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Increased borrowing costs of Capital Programme | (0.2) | 1.7 | 1.6 | 0.9 | 1.5 | 5.6 |
| Identified Efficiencies | (2.9) | (1.2) | (0.6) | (0.7) | (0.1) | (2.6) |
| Total budget requirement (CTAX Requirement) | 12.3 | 10.1 | 14.0 | 15.3 | 17.0 | 56.4 |
| Change in net budget requirement | 1.9 | (0.3) | 3.9 | 1.4 | 1.6 | 6.6 |
| Change in use of reserves | 0.9 | (0.9) | (2.5) | 0.1 | 0.1 | (2.3) |
| Funding Reductions | 0.0 | 2.4 | 0.4 | (0.3) | (0.4) | 2.1 |
| Budget Gap (Reductions still to find) | 2.8 | 1.2 | 1.8 | 1.1 | 1.4 | 5.5 |

12. Projections for 2023-24 to 2025-26

12.1 The projections for the budget for 2023-24 to 2025-26 based on the assumptions set out in this report is that there will be a cumulative budget deficit (gap) of £5.7million by 2025-26. The budget gap (ie, the difference between the expenditure and income of the Council) is shown in the table above, the chart below and Appendix 1 and 2 provides further detail.



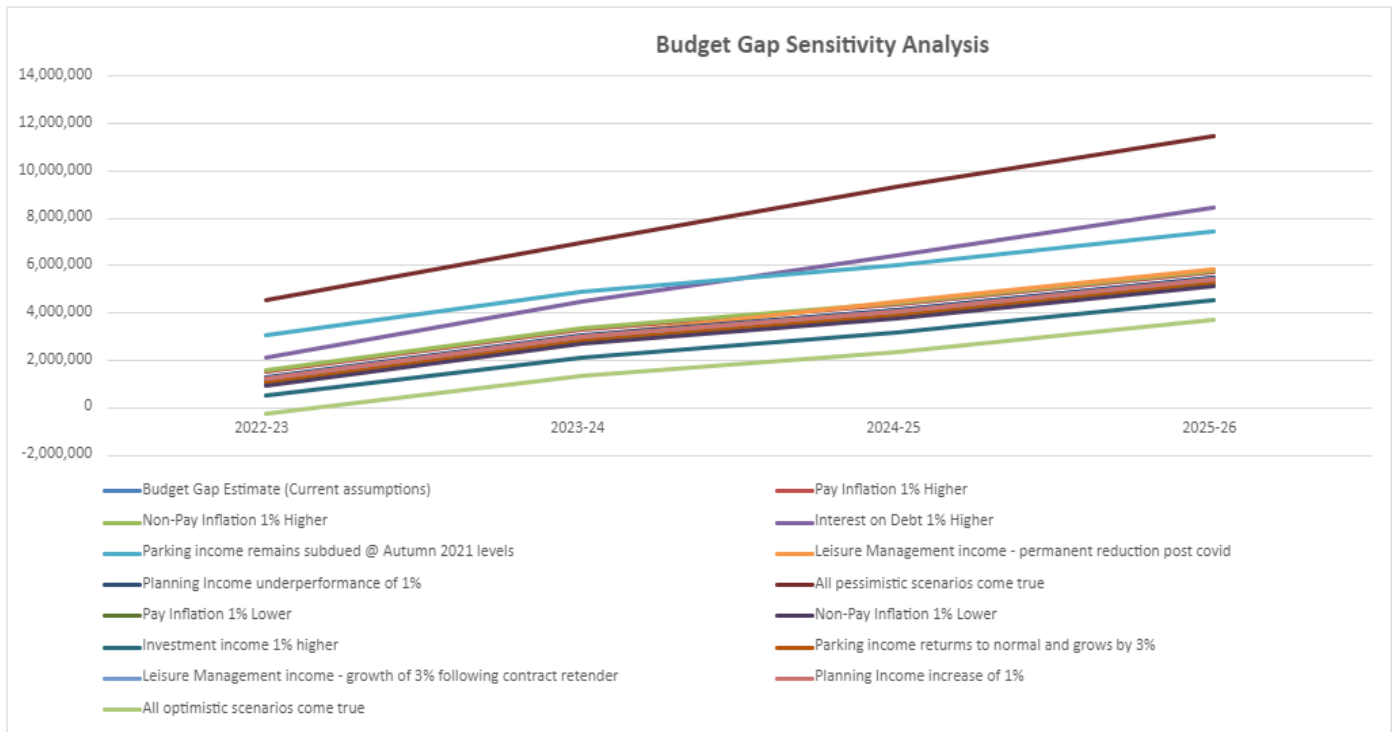
| GBC Budget, £m | | | | | |
|----------------|---------|---------|---------|---------|---------|
| Year | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |

| | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| Gross Expenditure | 103.732 | 103.301 | 105.876 | 108.106 | 110.614 |
| Gross Income | 103.732 | 102.056 | 102.853 | 103.996 | 105.146 |
| Budget Gap (difference between Expenditure and Income) | 0.000 | 1.245 | 3.023 | 4.110 | 5.468 |

- 12.2 A number of scenarios have been modelled as part of a sensitivity analysis on the budget gap. Based on an optimistic and a pessimistic set of assumptions. The scenarios are as follows:

| Optimistic Scenario | Pessimistic Scenario |
|---|--|
| Pay and Non-pay inflation 1% lower than core assumptions in section 4 | Pay and Non-pay inflation 1% higher than core assumptions in section 4 |
| Investment income 1% higher than budget assumption | Interest on Debt 1 % higher than budget assumption |
| Parking income grows by 1% above pre-covid levels | Parking income remains sub-dued at around 15% less than pre-covid levels |
| Leisure management contract income increases by 3% on retender | Leisure management contract income continues at contract extension level (approx. 30% reduction) |
| Planning fee income increases by 1% | Planning fee income reduces by 1% |

- 12.3 The above scenarios have been modelled individually and as a compound overall scenario. The outcome is shown in the graph below and indicates that the budget gap could range from £3.7million to £11.4million over the medium term plan period.



13. Savings Strategy

- 13.1 The scale of the shortfall between income and expenditure is significant, particularly considering the fact that the Council has made substantial savings, efficiencies and additional income in the last 3 years.
- 13.2 In order to deliver further savings of around £6million the Executive approved a Savings strategy in June 2021 which identified a number of work streams:-
- a. Review and potential reduction of the Council's discretionary services
 - b. Review of the Council's capital programme to reduce MRP and Interest costs falling on the general fund revenue budget
 - c. Review the Council's need for office accommodation
 - d. Consideration of merging the Council with a neighbouring borough
 - e. Consideration of merging the Council with a number of other neighbouring boroughs and part of the County Council to create a Unitary Council (one of multiple unitary Council's in Surrey)
- 13.3 Further detail regarding the progress against the workstreams is set out in Appendix 3.

14. Comments of Joint EAB

- 14.1 The Joint Executive Advisory Board (JEAB) will consider the outline budget at its meeting on 11 November 2021.

15. Consultations

- 15.1 The Joint Executive Advisory Board (JEAB) will be consulted about the outline budget for 2022-23 and progress against the savings strategy. In addition, the savings strategy and the savings project mandates have been presented to EABs through out the year and will continue to be presented to EABs as proposals are further developed. EAB comments are included in section 14 and Appendix 3.
- 15.2 In 2020 as part of the development of the 2021-22 budget and the savings strategy, the Council undertook a public consultation on the priorities for spending. The outcome of the consultation was reported to Council in February 2021 as it considered the savings strategy.

16. Equality and diversity implications

- 16.1 There are no equality or diversity implications arising from this report. Where changes to services are included within the budget the service managers will carry out the relevant equality impact assessments as part of the changes before they are implemented.

17. Financial implications

- 17.1 The financial implications are considered throughout the report.

18 Legal implications

- 18.1 The Council is required by the Local Government Finance Act 1992 to calculate its budgetary requirements on an annual basis. Under S151 of the Local Government Act 1972 the Chief Finance Officer is appointed to ensure the proper administration of the Council's finances.

19. Human Resources implications

- 19.1 Each year the Council reviews whether to make a pay award, in agreement with Unison, and takes into account factors such as changes in the UK economy and the Council's financial situation. In considering the level of pay award we aim to achieve a fair balance between the competing pressures of offering an attractive pay and benefits package and securing the best value for money for our residents and taxpayers. The pay award for 2022-23 is currently still under discussion.

20 Summary of options

- 20.1 The committee is able to offer comments in support of, or against, any of the proposals contained in the report.

21. Conclusion

- 21.1 At this early stage in the budget process, there is a gap between the projected net expenditure for 2022-23 and our estimated resources of £1.2million. There remain a number of external factors that may result in a budget gap developing further as we move through the process. It remains possible that there will be

revisions to the local government finance settlement but we will not know this until December.

- 21.2 The medium term financial plan position remains challenging and we estimate that we will need to find savings of approximately £5.5 million over the period to 2025-26. In order to set a balanced budget for 2022-23 and the medium term period, the report sets out an update on progress against the Council's savings strategy in section 13, with further detail in Appendix 3.

22. Appendices

Appendix 1 - General Fund summary and 3 year projections

Appendix 2 - Budget Movement Summary

Appendix 3 - Savings Strategy Progress update.

Appendix 4 - Service level budgets for 2022-23

23. Background papers

1. Service Delivery EAB 8th July 2021 Item 4; classical music grant
2. Service Delivery EAB 8th July 2021 Item 5; Guildford Book festival mandate
3. Council 5th October 2021 item 12a; Proposed Termination payment
4. Strategy and Resources EAB 11th October 2021 item 4; Review of CAB funding
5. Strategy and Resources EAB 11th October 2021 Item 5; Review of Voluntary Grants
6. Service delivery EAB 4th November 2021 Item 4; Public Conveniences Review [Item 4 - Public Conveniences Appendices Complete.pdf \(guildford.gov.uk\)](#)